

# **Revenue Estimating Conference**

## **Minutes**

### **March 19, 2004**

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Members present: Dennis Prouty, David Underwood, Mike Ralston.

Dennis Prouty called the Revenue Estimating Conference to order at 11:00 a.m. introducing and welcoming Mike Ralston, Director of the Department of Revenue, as a new member to REC replacing Holmes Foster.

Dennis asked for a motion to approve the minutes of the December 8, 2003 REC Meeting. Motion made by David Underwood, seconded by Mike Ralston to approve minutes as printed. Motion carried.

#### **Review Fiscal Year 2004 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds**

Dennis reviewed the agenda stating the REC would be looking at FY04 and FY05 estimates. The current law says that if REC increases FY05 estimates, the Legislature and the Governor do not have an opportunity to utilize that in their budgeting process. If the REC decreases the estimates, they have to re-submit their budget they are currently working on.

Dennis shared that the Legislative Service Agency (LSA) increased the personal income tax, use tax, corporate income tax and made some minor adjustments in other categories. An increase in receipts has been seen since the December estimates.

Mike commented that the Department of Management's (DOM) numbers were very similar to LSA's, also showing signs of growth.

David expressed his concern with the tremendous increase of steel prices causing layoffs, problems with work being completed by contractors and affecting manufacturing and corporate profits.

Mike shared David's concern adding that financial services and agriculture are sectors showing signs of strength. Health is also doing well. Mike asked David if he felt these would offset the anticipated problems with the steel increases?

David agreed that financial services has been very strong, along with the banks and insurance companies. Mortgage processing had also been very good until recently. Health care continues to struggle with profitability. If there are issues relative to construction, and the availability issues, that means there won't be people working construction this summer like we've seen during the past years. It could have a lot of ripple affects which makes it difficult to determine what the impact is going to be. David felt this would be a national impact.

Dennis also agreed with Mike's comments about other sectors doing relatively well. Manufacturing has been going down for the past couple of years and may continue to go down.

David added that there's been a lot of discussion on where the money has gone relative to the general fund. Why has it flattened out so much? David compared some of the gross income tax data that is available from the federal government to the peak year of reported income within Iowa. He looked at dividend income, interest income and capital income which are three areas that peaked in 2000. David said he compared the incline of those three pieces. It equates to somewhere around \$128M of revenue for the state of Iowa that went away due to those three factors – lower interest rates, less dividends and decline in capital gains. This explains where a lot of the money went. David added that the current situation doesn't indicate that 2004 is going to have a big surge in those three areas which are some of the largest chunks, other than wages, within Iowa's income.

Mike made a motion to accept DOM's estimates of \$4,513.4M for FY04 Net General Fund Receipts. David seconded motion. Motion carried.

David made motion to accept DOM's estimate of \$133.0M for FY04 Gambling Revenue Deposited to Other Funds. Mike seconded motion. Motion carried.

**Estimate Fiscal Year 2005 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds.**

David commented on the \$20M difference in the December estimates and the March estimates asking where that \$20M is coming from.

Mike responded that a portion of that is from lower estimated refunds.

Following discussion, Mike made motion, seconded by David to accept DOM's recommendation of \$4,602.5M for FY05 Net General Fund Receipts. Motion carried.

David made motion, seconded by Mike to accept the FY05 estimate of \$130.2M for Estimated Gambling Revenue Deposited to Other Funds. Motion carried.

**Other Business**

With no further business, David moved to adjourn.